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SUMMARY OF CONTENTS

Moscow comment on President Eisenhower's atomic energy speech has ranged from initial radio criticism, through cautious press treatment, to a Foreign Ministry announcement that serious attention would be given the proposals. The Kremlin in effect has avoided any advance commitment as to the nature of its official response.

Both Pravda and chief Soviet delegate to the UN Vyshinsky, however, have made note of the omission of any proposal for the banning and control of atomic weapons, without commenting on the plan itself. Such criticism suggests that the USSR will maintain its propaganda position calling for outlawing the atomic bomb but may avoid a flat rejection of the president's proposal.

On 12 December, Malenkov, Molotov, and Khrushchev attended a reception at the Czech embassy in Moscow in honor of the tenth anniversary of the Czech-Soviet Treaty of Friendship. At the reception, both Malenkov and Molotov, according to two diplomats, made speeches entirely devoted to the theme of peace, and the premier included a statement that the Soviet government would give serious consideration to any proposals directed toward peace from any government. Khrushchev at first emphasized the ability of the Czech and Soviet armed forces to repel would-be aggressors, but at this point, Malenkov, visibly annoyed, whispered loudly "peace, for peace," and Khrushchev immediately changed his tune and fell into line.

This exchange points up the importance of the peace theme to the present Soviet leadership, and it suggests that Khrushchev is not in a position to deviate from the established line.

Every East European Satellite Communist Party except the Albanian has scheduled some form of party congress or conference for the first half of 1954. The Polish party meeting will be in January, the Bulgarian in February; East Germany and Rumania will have theirs in March, Hungary in April, and Czechoslovakia in June. Inclusion of the question of economic policy in the proposed agendas for the Polish, Rumanian, and Czech congresses indicates the stress to be placed on problems arising from the new course.

As part of the announcement of its congress agenda, the Czech regime revealed that its next Five-Year Plan will be initiated in 1956, two years after the completion of the current

one. This announcement appears to confirm the belief that long-range Soviet and European Satellite economic plans will be coordinated starting in 1956.

Supporting this thesis is the fact that the Soviet, East German, Polish, Rumanian, and Albanian plans terminate at the end of 1955, and that although Hungary has announced a second Five-Year Plan to follow the completion of the current one, which ends in 1954, no date has yet been given for its inception. Since most of the goals for the "new course," both in the USSR and the Satellites, are stated in terms of 1954 and 1955, it seems probable that the Communist regimes are attempting to create a better economic balance in preparation for further socialization and industrialization advances under a new and coordinated Five-Year Plan in 1956.

VIET MINH STRATEGY SEEMS DIRECTED TOWARD PROLONGING THE WAR

Ho Chi Minh's repeated statements on the possibility of peace negotiations and Viet Minh efforts to pursue a war of attrition seem designed to capitalize on war-weariness in France and Vietnam. Knowing of the French desire to force an early decision, Viet Minh leaders apparently believe time favors their cause.

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The enemy divisions in Tonkin are now so disposed as to permit, with some redeployment, attacks against northwest Tonkin, against the northwest corner of the delta, or against Laos (see map, p. 8). The initiative, despite recent displays of French aggressiveness, appears to remain with the Viet Minh.

Enemy troop movements strongly suggest that northwest Tonkin rather than the delta will be the scene of the most important activity this winter. The Viet Minh probably estimates that by consolidating its hold on the hinterland it can avoid undue risk and cause the French to disperse considerable forces to the area.

The bulk of the Viet Minh 316th Division is now within striking distance of Dien Bien Phu, and elements of this force have occupied Lai Chau. Two regiments of the 304th Division, which began moving northwest from Thanh Hoa during the first week of December, were last reported in the vicinity of Van Yen, on the Black River. The French reported indications on 9 December that elements of the 308th and 312th Divisions were moving westward toward the 316th, thus further diminishing the likelihood of a large-scale assault on the delta.

The French command has made a strongpoint of Dien Vien Phu, which until recently was in enemy hands. French Union units now there total about one division, including the garrison that evacuated Lai Chau last week.

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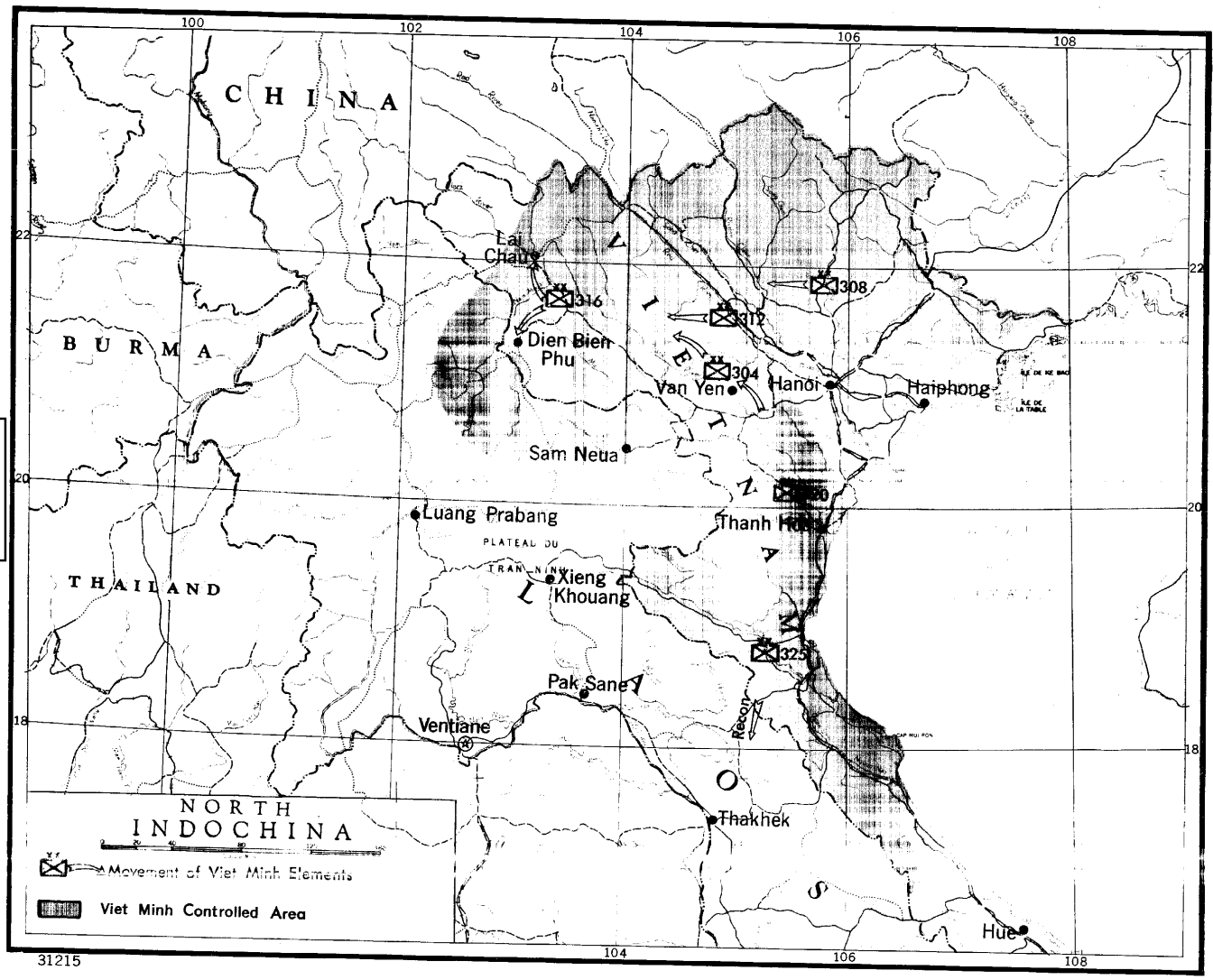
The enemy, however, is not neglecting the Tonkin delta. Some 63,000 regulars and auxiliaries are there and infiltration by elements of the 320th Division, now located north of Thanh Hoa, may also have taken place. At the same time, the French reinforcing of Dien Bien Phu has reduced the recently augmented French reserves in the delta.

The Viet Minh, which takes a long-term view of the struggle, may have inferred from French emphasis on an early victory that failure to meet this schedule might bring about lessened support for the war, both from France and the United States. Action in the northwest would lend itself to the important objectives of carving out additional territory and disrupting French guerrilla operations; but more importantly, the deployment of French forces to that area, which has already begun to take place, would delay Navarre's offensive plans.

The victories hoped for by the French depend on their being able to force the enemy into battle. This might be done by an attempt to occupy Thanh Hoa, the center of the Viet Minh's major food-producing area. But if the Viet Minh can develop a secure base area in the hinterland, supplies from China together with the rice it is able to obtain from the delta might enable the army to avoid decisive contact almost indefinitely and thus place great strain on French willingness to continue the fight.



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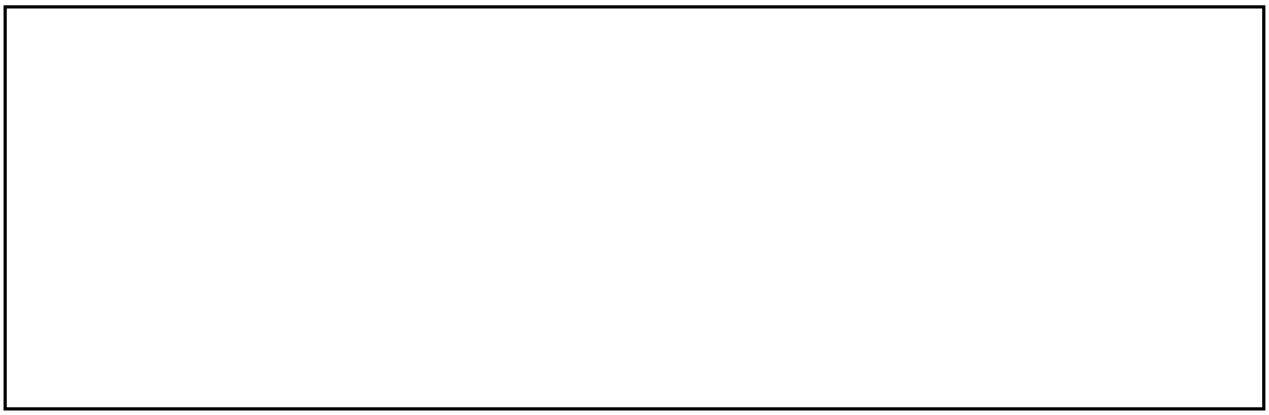
USSR RENEWS PRESSURE AGAINST A MIDDLE EAST ALIGNMENT WITH THE WEST

Recent Soviet efforts to influence Middle Eastern states against any alignment with the West are highlighted by propaganda attacks on alleged American attempts to create a "Middle East Command," the note to Pakistan asking for "clarification" of reported American-Pakistani negotiations for military bases, and diplomatic representations to Iran. Moscow appears to desire particularly to prevent the establishment of any Western bases in Iran and Pakistan.

Recent visits of prominent Americans to the Middle East and statements by Middle Eastern leaders suggesting that these visits are connected with military planning are probably the immediate cause for increased Soviet attention to the area. Moscow has interpreted these visits as confirmation of its assertion that American military planning calls for the conclusion of a series of bilateral pacts with states along the Soviet border, with the ultimate aim of welding them into a "Northern Middle East Command."

Similarly, the visits of prominent Pakistanis to Turkey and the United States have been interpreted in Soviet propaganda as further proof that these leaders are conniving with the United States in an attempt to impose American domination on the area through "aid" and to establish Western bases within bombing range of the Ural industrial complex.



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Moscow has consistently exerted pressure against Middle Eastern states in the past when there was increased Western activity in the area. In the fall of 1951, when plans were announced for establishing a Middle East defense organization under Western aegis, the Kremlin delivered notes to the Arab states, Israel, Turkey, Great Britain, France, and the United States.

Moscow has been alert to point out the "threat" of an American-Pakistani agreement to other states in the area, such as India, Afghanistan, Burma, and Indonesia. In an obvious allusion to India's dispute with Pakistan over Kashmir, Soviet propaganda has taken advantage of Prime Minister Nehru's opposition to an American-Pakistani alliance by stating that such an alignment would "threaten Asian peace."

With respect to Afghanistan, Moscow, recalling its success in deterring Afghanistan's plan to develop its oil resources with French aid in 1952 and the outstanding Afghan-Pakistan dispute over Pushtoonistan, may make a demarche to Kabul in the hope of promoting stronger opposition to a possible alignment of Pakistan with the West.

With respect to Iran, Moscow has repeatedly warned Tehran against tolerating Western "interference." Soviet delegate Vyshinsky asserted in the UN on 6 November that the United States was pressing for bases on Iranian soil. This allegation was categorically denied by Iranian diplomats at the UN, but Soviet propaganda has ignored these denials. Soviet representatives may use the Soviet-Iranian financial and border talks, shortly to begin in Tehran, to remind Iran that a military commitment with the West is unacceptable to the USSR and is a violation of the 1921 Soviet-Iranian treaty.

Soviet propaganda has also claimed that the Middle Eastern states are attempting to revive the 1937 Saadabad pact among Turkey, Iraq, and Afghanistan and to enlarge it by the inclusion of Pakistan. This charge reflects Moscow's sensitivity to the formation of any bloc on its border which might limit the effectiveness of Soviet pressure against individual states.

There is no evidence that these Soviet efforts will deter Pakistan, Iran, and Turkey from defensive planning with the West or among themselves. Moscow may devise a counterplan and request a reaffirmation or renewal of its treaties of friendship and nonaggression with Iran and Afghanistan. It may also offer bilateral treaties of nonaggression to other Middle Eastern states with the aim of encouraging neutralist sentiments and denying the area to the West.

ITALIAN GOVERNMENT FACES CRISIS OVER LABOR SITUATION

The recent wave of strikes in Italy, the first since 1947 to be supported by both the Communist and non-Communist labor organizations, is symptomatic of the rising social discontent and foreshadows serious parliamentary difficulties for the already shaky Pella government. The nationwide industrial strike on 15 December followed generally successful one-day railroad, industrial, and government workers strikes in the past few weeks involving over 1,000,000 workers each.

Chronic high unemployment, inadequate wages, large-scale factory layoffs, and differences over fringe contract benefits are responsible for the current unrest. Although the non-Communist unions have generally refused to cooperate with the Communists, they were virtually forced into unity of action by the refusal of Confindustria, the industrialists' association, to deal with them.

On 24 September the Communist and non-Communist unions jointly supported an industrial strike for the first time in six years. Larger joint strikes which were planned at that time were headed off when the government put pressure on Confindustria to resume bargaining over wage and contract issues. This "bargaining," however, appears to have been limited to talks with government representatives.

Since the September strike Confindustria has refused to negotiate with any of the labor federations, although previously it had shown a tendency to deal at least with the Communists, who have the best-organized union. Certain firms such as Fiat have also aroused additional resentment by cutting down on the operations of labor-management committees, elections for which have in several recent cases resulted in gains for the Communist unions.

Thus far the government has done little to meet this situation. Should it ask parliament to pass in its entirety the labor bill now reportedly in preparation, the government faces opposition not only from the moderate and extreme leftist parties, but also from representatives of the Christian Democratic labor union, which has increased its parliamentary strength since the June elections. The bill, a revised version of a three-year-old bill which never reached the floor of parliament under De Gasperi, would severely restrict the right to strike and require all labor organizations to register with the government.

This latter provision, according to the bill's non-Communist opponents, would in effect not only legalize the neo-Fascist labor union, but also establish as labor's accredited bargaining agent the Communist confederation, inasmuch as this is the country's largest. Both Communist and non-Communist labor federations have already expressed bitter resentment at the government's recent decision to recognize the neo-Fascist union's bargaining rights. This decision, they charge, is another indication that the government is moving to the right.

The government's apparent reliance on the support of right-wing groups also makes it unlikely that much official pressure will be brought to bear on management, which in any case considers itself in a strong position in view of Italy's desperate unemployment situation. The government itself has failed to arrive at a compromise with its civil servants, and has threatened to apply once again certain sanctions in the form of wage withholding. Statements Pella has made to American officials suggest a serious unawareness on his part of the strength of feeling behind labor's demands.

Continued failure to cope with the labor situation, even if it should not bring about the fall of the Pella government, can be expected to give rise to further crippling strikes. More serious, however, is the possible return to Communist-dominated labor unity, which could cost the government its only hold on labor through the non-Communist unions, and thus increase the already formidable political potential of the Italian Communists.

MOROCCAN SITUATION CONTINUES TO DETERIORATE

The French government, forced to give priority to maintaining order in Morocco, is making relatively little progress in its widely heralded reform program. The new sultan reportedly is dissatisfied and wants to abdicate. Spain is attempting to exploit the situation to build up good will among the Arab states, and possibly to enlarge its protectorate in Morocco at France's expense.

Acts of violence have not decreased in spite of widespread mass arrests of all known nationalists and the self-imposed exile of most of their leaders. The situation is further complicated by the emergence of a French settlers' counter-terrorist organization which threatens associates of the former sultan and poses a serious threat to public order.

The previous sultan's government was in theory an autocracy, dominated in fact by the French. After deposing him in mid-August, the French ostensibly set up a constitutional monarchy and established separate executive, legislative, and judicial branches of government. The extensive power wielded by French officials in the Residency General, however, has been considerably increased and primary emphasis is placed on consolidating the French position and minimizing Moroccan capabilities for interfering with any program France may wish to implement.

No progress has been made toward effecting promised civil rights guarantees or enacting legislation permitting Moroccan-organized trade unions--the two most important reforms desired by the nationalists and essential for the development of the democratic state which France is pledged to create in Morocco.

Opinion in the French community in Morocco is divided on the subject of reforms already instituted. Colonists and industrialists strongly criticize them as being too generous to the natives, while professional men, merchants, and civil servants feel they are insufficient. Powerful settler lobbies continue to operate in both Rabat and Paris.

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Tolerated but not accepted by most Moroccans, the new sultan is keenly aware of his unpopularity and desires to abdicate.

Even though the French refuse to let him retire, he apparently has not yet resorted to his sole prerogative--to delay legislation for 30 days.

Meanwhile, French relations with Spain over Morocco have deteriorated markedly, although early Spanish fears that France might unilaterally abrogate the bilateral treaty of 1912 under which Spain occupies northern Morocco have apparently disappeared. The French are irritated because Spain has not recognized the new sultan and has used the controlled press in Spain, Spanish Morocco, and Tangier to keep the question of the former sultan's deposition alive. However, while providing sanctuary for nationalist refugees, Spanish authorities keep a tight rein on their activities and are not likely to permit them to establish bases for physical assault on French Morocco.

Spain's policy is aimed toward improving relations with the Moslem world. It also may be aimed toward enlarging its protectorate in northern Morocco as a price for eventual recognition of the new sultan or toward establishing a separate kingdom, thus dividing Morocco permanently. An early rapprochement between France and Spain is not likely.

American recognition of the new sultan on 8 September has not alleviated the undercurrent of hostility toward the United States among French officials. Moroccan nationalists who had counted on the United States to prevent dethronement of the monarch have been disappointed. The native population is now particularly susceptible to Communist anti-American propaganda which is being circulated despite a ban on Communist activity. The nationalist press in Tetuan in Spanish Morocco is also sharply critical of the United States. Its circulation is now so restricted, however, that its influence is minor.

RECENT DEVELOPMENTS IN SOVIET-FINNISH RELATIONS

Recent Soviet moves indicate that for the present the USSR intends to pursue a conciliatory policy toward Finland, possibly in an attempt to influence the parliamentary elections scheduled for 7-8 March. While official Finnish circles tend to regard the USSR's diplomatic and economic moves favorably, there is some uneasiness over its possible intent.

On 18 November ex-premier Kekkonen disclosed that while still in office he had approached Soviet officials concerning possible economic aid to Finland and that secret talks had been in progress between himself and Soviet minister Lebedev for several weeks. The specific Soviet offers under consideration were: (1) payment in Western currencies for from 10 to 15 percent of Finland's total exports to the Soviet Union; (2) the use by Finland of the Saimaa Canal, part of which now lies in Soviet territory; (3) a substantial loan; and (4) increased trade in some commodities. In return the USSR reportedly was asking "for a practical policy on the part of Finland in accordance with the Soviet-Finnish Mutual Aid Pact." Although this latter condition has not as yet been elaborated, it is certain that no elected Finnish government would agree to the Soviet offers if acceptance would compromise Finnish independence in any way.

Official Finnish reaction to the Soviet offers of economic assistance generally has been favorable. The new caretaker government under Premier Tuomioja, which assumed office on 17 November subsequent to the fall of Kekkonen's cabinet, has already approached Soviet officials about continuing the negotiations. Premier Tuomioja has indicated that he desires a loan in gold or free currency, since this would permit increased capital investment in Finnish industry.

The reported Soviet offer to pay for a portion of imports in free currency would also be favorable to Finland. While this is provided for in the basic trade agreement of 1950, the USSR has never actually made such payments.

Another recent development in Finnish-Soviet relations has been the sale of a number of Soviet-owned companies in Finland. Most of the firms sold, however, are of little economic importance and several reportedly are in financial difficulty.

The Soviet offers may be interpreted as a counter to any possible Western offers of aid to Finland during its present economic difficulties. They may also be an indirect warning that the Soviet Union maintains an interest in assuring that Finland remains outside any economic or political agreements which might tie it more closely to the West. These actions are in line with the USSR's recent policy of appearing conciliatory and of offering concessions which cost little, but have political or propaganda value.

In this connection, the 1954 Finnish-Soviet trade protocol, which was signed on 25 November after only two months of negotiations, is generally favorable to Finland. It enables Finland to import most of its requirements of such basic commodities as grain and fodder, petroleum products, sugar, and cotton without using sterling or dollars. Although it provides for a ten-percent decrease in Finnish exports as compared to the current year, the USSR will remain Finland's principal trading partner during 1954. In the long run, the reduction of these exports may cause some hardship in the metalworking industries, but at the present time it is believed that most of their output can be absorbed by the domestic market.

The USSR also has probably given tacit approval for Finnish re-export of Soviet grain, a practice which it forbade a year ago. Recently Finland negotiated the re-export of some 100,000 tons of Soviet wheat to Brazil.

One of the factors behind the present Soviet moves may be the forthcoming parliamentary elections. In the local elections last October the Finnish Communist Party made no significant gains, and the USSR may believe that a more conciliatory policy at this time will strengthen the party's position. Since most Finns have interpreted the Soviet gestures as an attempt to influence internal Finnish political developments, however, it is unlikely that they will have any important effect on next spring's elections.

ASIAN RICE SURPLUSES CREATE NEW TRADE PROBLEMS

In the years since World War II there have been no overall rice surpluses in Asia, but unusual circumstances in 1953 have led to large accumulations in Thailand and Burma. This situation tends to undermine the high prosperity Thailand has enjoyed since the end of World War II and has led to a weakening of the economy in Burma.

During the past year, Thailand and Burma have accumulated carry-over stocks of around 400,000 tons and 600,000 to 800,000 tons respectively. Almost all of the normal importers enjoyed favorable rice crops; demands fell off because of the poor quality of Thai and Burmese rice; and both these countries refused to lower their export prices in order to stimulate additional sales.

Certain basic changes in the world rice picture contributed to the problem. The spur of extreme wartime and postwar rice shortages accelerated efforts to expand domestic production in importing countries, stimulated production and exports from areas which previously were not significant producers, and hastened a shift in consumption from rice to wheat and barley. Japan and India, the two largest prewar rice importers, have cut their imports by almost one half. Communist China, which formerly imported around 500,000 tons of rice annually, is planning this year to export around 300,000 tons to the free world, mostly to Ceylon. It has already shipped at least 50,000 tons to the USSR and will probably export similar quantities in 1954.

If the new crops now being harvested in Thailand and Burma are larger than last year's, as expected, around 4,000,000 tons of rice will be available for export in 1953-54 as compared with 1952-53 sales of about 2,700,000 tons. Both countries are confronted with a serious storage problem and Burma faces the possibility of farm unrest if the new crop is not marketed rapidly. On the other hand, importing countries, with the exception of Japan, again anticipate unusually good domestic crops and generally are in a position to await a favorable market.

Thailand has enjoyed unprecedented prosperity in the postwar period, but prospective declines in rice prices foreshadow increased economic difficulties. American officials in Bangkok have pointed out that if economic deterioration is not checked, Thailand will be unable to maintain its current level of military expenditures for more than two or three years.

Burma's problems are more immediate than those of Thailand because of larger carry-over stocks and the greater dependence of the postwar Burmese economy on rice. Japan was able to use the promise of a long-term purchase agreement with Burma not only to secure favorable terms but also to reverse Rangoon's stand against Japan's accession to the General Agreement on Trade and Tariffs. India, whose rice purchases fell 600,000 tons short of Burmese expectations this year, may have been seeking to improve its relations, and at the same time secure favorable terms, when it announced that it might buy 1,000,000 tons for stockpiling if the price were right.

Recently Ceylon was able to conclude a rice purchase agreement with Burma which not only permits a wide variation in the quantity to be bought but also stipulates 1954 prices which are $27 per ton below the previous Burmese government price.

Burma has been using the threat of expanded trade relations with the Orbit as a means of pressing the United States to assist in finding a solution for this problem. The United States is currently the world's third largest rice exporter and chief competitor to Burma and Thailand. The 1954 exportable surplus of American rice is expected to be above that of this year, and surplus wheat exports are also being promoted. The Burmese press has already accused the United States of "invading" Burma's Far Eastern markets, and increasingly keen competition for grain markets in Asia may result in further exploitation of this anti-American theme by rice exporters.